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Future Newly Industrializing Countries: More Competition?

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A Research Paper

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March 1984

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A Research Paper

This paper was written by
Office of Global Issues. Comments and queries are welcome and may be addressed to the Chief, Third World Issues Branch, Economics Division, OGI, on

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Summary

Information available as of 3 February 1984 was used in this report.

A "second tier" of less developed countries (LDCs) has emerged that is rapidly expanding its exports of manufactured products. Using criteria based on the value and rate of growth of manufactures exports, we have identified 11 second-tier countries. Between 1975 and 1980, these countries' exports of manufactures grew at an average annual rate of 25 percent in real terms, far outpacing the 18-percent rate for the newly industrializing countries (NICs).[1] Moreover, this achievement occurred during a period in which the growth of world manufactures exports steadily declined.

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These second-tier countries will continue to expand their manufactures exports during the 1980s and beyond, but we believe only a few of them have the potential to join the ranks of the NICs. This judgment is based on:

- The partial rather than comprehensive implementation of export-led growth policies by the governments of most of these countries.
- Burdensome financial problems, which led to the introduction of IMF-mandated or self-imposed austerity measures that have slowed the implementation of their export-oriented development strategies.
- Changes in the growth, protectionist pressures, and competitive forces of the world trading environment that have made it more difficult for these countries to become dynamic exporters of manufactures.
- Country-specific factors such as political instability and an inadequate industrial base, which disrupt the growth of manufactures exports.

In our judgment, the NICs will be limited to a group of four to six countries, with the country composition changing over time. Probably only Malaysia and, to a lesser extent, Thailand have the potential to vie for a position among the NICs in the next 10 years. After then, we believe Argentina, Peru, or Uruguay may be contenders.

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Although most of the second-tier LDCs are unlikely to achieve NIC status, the steady growth in their manufactures exports will almost certainly increase the competitive pressure on industrial-country producers of textiles, clothing, and footwear. This judgment is based on the increasing number of LDCs that are beginning to produce and export these manufactures. Most of these countries will not become major exporters, but they will be a continual source of competition in both domestic and foreign markets.

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[1] The NICs include Brazil, Hong Kong, Mexico, Singapore, South Korea, and Taiwan.

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Over the longer term, we believe that there will probably be a sharp increase in inter-LDC trade competition as the second-tier LDCs and NICs compete against each other to capture a greater share of a slowly expanding world market for manufactures. While this could generate trade pressures, industrial-country negotiators may benefit from the additional leverage they have in playing the needs of one group of LDCs against those of another in future trade negotiations and North-South economic forums.

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We recognize that the economic and political trends on which our analysis is based may change in the next five to 15 years. We believe any development that makes it increasingly difficult for the second-tier LDCs to achieve NIC status would also reduce the competitive pressures they impose on the industrial countries. A second-tier LDC might implement measures or experience an unexpected economic or political event that enhances the competitiveness of its manufactures exports, but this competition would have a marginal impact on the industrial countries' manufactures exports because it would be limited to that country. We believe the development that probably would heighten the competitive pressures between the industrial-country producers and second-tier LDC manufactures exporters is an unanticipated improvement in the climate of the world economy. In this instance, the improved market conditions would enable each second-tier LDC to further develop its export-oriented manufacturing base and to strengthen the policies of its outward-looking growth strategy.

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Table 1
Developing Countries: Major Exporters of Manufactured Products

Value, 1980	Real Growth of Manufactured Exports, 1976-80 (1975=100)		
	Less Than World Average, 6.7 Percent	Between World and NIC Average, 6.7 to 17.8 Percent	Greater Than NIC Average, 17.8 Percent
$200 million to $1 billion	Colombia	Bangladesh	Chile [a]
	Egypt	Costa Rica	Cyprus [a]
		Guatemala	
	El Salvador	Kenya	Indonesia [a]
		Morocco	Jordan [a]
	Ivory Coast		Peru [a]
			Sri Lanka [a]
			Tunisia [a]
			Uruguay [a]
$1 billion to $2 billion	Mexico [b]	Argentina	Malaysia [a]
		Pakistan	Philippines [a]
			Thailand [a]
$3 billion to $10 billion		Brazil [b]	Singapore [b]
		India	
More than $13 billion		Hong Kong [b]	South Korea [b]
		Taiwan [b]	

[a] Second-tier LDCs.
[b] NICs.

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Future Newly Industrializing Countries: More Competition?

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A New Wave of Third World Industrial Exporters

The emergence of less developed countries as exporters of manufactured products has been one of the major developments in international trade over the past two decades. The experience of the newly industrializing countries [2] is the most dramatic example of this development. Although their development has opened new export markets for the industrial countries, the NICs' rapid manufactures export growth has become a source of unwelcome competition for many industrial countries that supported their development with investments and aid. The growing impact of NIC exports has given rise to a concern that the current set of NICs is but the leading edge of a larger group of LDCs with the capacity to both produce and export manufactures that compete with politically sensitive industrial-country industries.

The presence of a second tier of developing countries that is rapidly expanding its manufactured product exports is suggested by several factors:

- According to the Organization for Economic Cooperation and Development (OECD), the number of developing countries exporting more than $100 million worth of manufactured products (in 1975 prices) has increased from 18 in 1965 to 22 in 1970 and to 47 in 1980.
- Exports of manufactured products from the non-NIC developing countries grew at an average real rate of 10 percent per annum between 1970 and 1980, compared with 6.7 percent from the industrial countries for the same period.
- During 1971-80, the non-NIC developing countries' exports of manufactured products rose from 16 to 26 percent of their nonfuel exports. Their share of world manufactured product exports increased from 2.2 to 2.8 percent.

This paper examines the second tier of developing countries to determine if a new wave of Third World industrial exporters will emerge and identifies the impact that these newcomers may have on the United States and its industrial allies.

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Who Are the Newcomers?

To identify this second tier of LDC manufactures exporters, we applied two criteria based on the value and rate of growth of the LDCs' manufactures exports.[3] To qualify as a second-tier LDC, manufactures exports had to:

- Exceed $200 million in value in 1980.
- Grow at a real average annual rate of 18 percent during 1976-80.[4]

This rate of growth is equal to the rate registered by the NICs during the same period and slightly higher than the developing-country average of 15 percent.

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According to these criteria, 11 developing countries are second-tier exporters of manufactured products (table 1).[5] This list includes one low-income country—Sri Lanka—and 10 middle-income countries—Chile,

[2] The NICs include Brazil, Hong Kong, Mexico, Singapore, South Korea, and Taiwan.

[3] Manufactured products are defined as Standard International Trade Classifications (SITC) 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), 8 (miscellaneous manufactures), less 68 (nonferrous metals). The United Nations *Yearbook of International Trade Statistics* was used as the primary source of country trade data. In some instances, this data differs from that reported in official government publications.

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[4] Real values were calculated using the unit value index for manufactured products exported by industrial market economies (1975=100). See appendix B for a list of the LDCs with manufactures exports exceeding $200 million in 1980.

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[5] Six developing countries, other than the NICs, that met the criteria were excluded from the analysis: five countries where oil dominates the economic structure (Kuwait, Nigeria, Saudi Arabia, Trinidad and Tobago, and Venezuela) and Lebanon, which was excluded for lack of comprehensive data.

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Table 2
Real Growth Rate of Manufactured Product Exports, 1961-80

Average annual percent

Country Group	1961-70	1971-75	1976-80
World	11.0	7.3	6.7
Developed market economies	10.0	7.2	6.3
Developing market economies	10.4	12.5	14.9
Of which:			
NICs	15.5	14.7	17.8
Second-tier LDCs [a]	6.3	20.3	24.5

[a] When Argentina, India, and Pakistan are included, the respective growth rates are 6.7, 5.6, and 16.8 percent.

Cyprus, Indonesia, Jordan, Malaysia, Peru, the Philippines, Thailand, Tunisia, and Uruguay. Of these countries, Malaysia, the Philippines, and Thailand account for 60 percent of the second-tier LDCs' total exports of manufactured products. Three countries that are excluded from this list but will be discussed are Argentina, India, and Pakistan. Each has growth rates that are lower than the NIC average, but each has substantial exports of manufactured products and has registered marked gains in the growth of these exports during the 1976-80 period.

UN trade data reveal the dynamic nature of these newcomers' manufactures exports. Between 1975 and 1980, the second-tier LDCs' exports of manufactured products grew at an average real rate of almost 25 percent per annum, from $2 billion to $5.7 billion, far outpacing the 6-percent rate sustained by industrial countries and the 18-percent rate for the NICs (table 2). This performance occurred during a period in which the growth rate of world manufactured exports steadily declined. As a consequence, the second-tier LDCs' exports of manufactures accounted for 15 percent of their total exports in 1980, up 11 percentage points from 1970, and their share in world exports of manufactured products increased from 0.2 percent in 1970 to 0.9 percent in 1980.

The rapid expansion of the second-tier LDCs' manufactures exports has been accompanied by considerable changes in their product composition. In particular, these countries have shifted from the production and export of semimanufactures based on natural resources to such labor-intensive products as clothing, leather goods, footwear (in Peru, Tunisia, Chile, and Pakistan), and simple electrical products (in Thailand, Malaysia, Philippines, and Sri Lanka). This adjustment has resulted in an export structure similar to that of the NICs (figure 1).

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As can be seen in table 3, however, a considerable gap exists between the second-tier LDCs and the NICs. The most salient difference is in the value of exported manufactured products. In 1980, the second-tier LDCs exported, on average, $0.8 billion worth of manufactures, which accounted for 15 percent of their total exports. This is well below the average $11.6 billion in manufactures exports and 63-percent share of total exports registered by the NICs. The differences also extend to the composition of their exports. While the second-tier LDCs' manufactures exports are composed largely of labor-intensive products, the NICs' manufactures exports are highly concentrated in such skill- and technology-intensive products as data-processing equipment, telecommunications equipment, and electronic components. This evidence suggests that, although the growth rate of the second-tier LDCs' manufactures exports exceeds that of the NICs, they still have some distance to go to match the level and significance of the NICs' manufactures exports.

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Will They Achieve NIC Status?

Like the NICs, the second-tier LDCs have a mix of economic conditions that facilitate industrial growth.[6] Varying in degree, each second-tier LDC has, for example, a skilled labor force; an entrepreneurial class; low labor costs; and an adequate financial,

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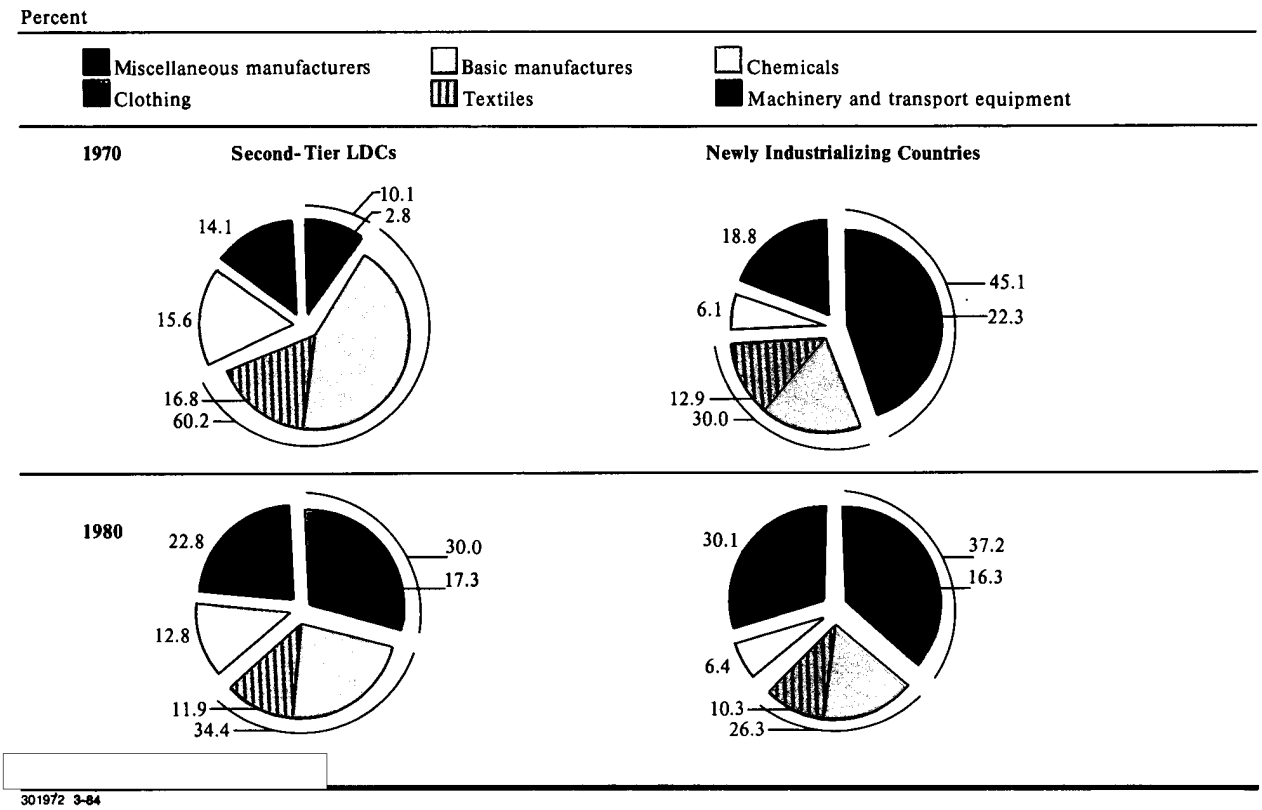
Figure 1
LDCs: Composition of Manufactured Product Exports, 1970 and 1980



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transportation, and communications infrastructure from which to produce manufactures. Although these conditions are important requirements for industrial development, they are not sufficient to ensure that the second-tier LDCs will become dynamic manufactures exporters.

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Factors Affecting Success

According to development theorists, if an LDC is to become a dynamic exporter of manufactures, it must also:

- Adopt an export-oriented growth strategy that gives priority to manufactures exports.
- Implement a comprehensive strategy that not only gives priority to manufactures exports but also makes them the focal point of their economic policy and development strategy. This requires the use of consistent exchange rate, trade, and investment policies.

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- Pursue the export-oriented strategy when foreign markets are receptive to manufactures exports and the domestic market is both politically and economically stable. This assures that the strategy can be sustained and provides conditions attractive to investors and importers.

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Table 3
Second-Tier LDCs and the NICs:
Comparison of Selected Indicators

	GNP per Capita, 1980 *(US $)*	Value of Manufactures Exports, 1980 *(million US $)*	Real Average Annual Rate of Manufactures Export Growth, 1976-80 *(percent)*	Share of Manufactures Exports in Total *(percent)*		Share of Manufactures in GDP *(percent)*	
				1970	1980	1970	1980
Second-tier LDC average [a]	**700**	**823**	**25**	**4**	**15**	**18**	**18**
Chile	2,150	690	22	10	14	27	21
Cyprus	3,150	310	28	38	58	11	16
Indonesia	430	501	31	1	2	9	9
Jordan	1,420	202	22	31	36	11	16
Malaysia	1,620	2,427	18	17	19	15	23
Peru	930	553	55	3	17	24	27
Philippines	690	1,221	24	7	21	23	26
Sri Lanka	270	241	50	4	23	10	18
Thailand	670	1,627	26	5	25	16	20
Tunisia	1,310	798	24	20	36	8	13
Uruguay	2,810	489	22	30	46	19	25
NIC average	**2,060**	**11,646**	**18**	**58**	**63**	**25**	**25**
Brazil	2,050	7,492	17	25	37	25	23
Hong Kong	4,240	17,951	15	93	91	25	27
Mexico	2,090	1,735	3	31	11	23	24
Singapore	4,430	9,048	21	42	47	24	28
South Korea	1,520	15,659	19	81	90	26	28
Taiwan	2,270	17,990	17	84	91	29	34

[a] When Argentina, India, and Pakistan are included, these averages become 430, 1,277, 17, 17, 23, 18, and 24, respectively.

Source: UN *Yearbook of International Trade Statistics;* World Bank *World Development Report.*

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When the development strategies of the second-tier LDCs are compared with these conditions, we see little likelihood that the second-tier LDCs will follow the existing NICs to become an equally dynamic wave of manufactures exporters. This judgment is based on the observation that the second-tier LDCs satisfy only the first of these three conditions; that is, each has introduced outward-looking growth policies to promote its manufactures exports.[7] There are several factors common to most of the second-tier LDCs that prevent them from satisfying the remaining conditions. Included among these are:

- The partial rather than comprehensive implementation of outward-looking growth policies.
- Burdensome financial problems that have required austerity measures, which have slowed the implementation of their outward-looking development strategies.
- Changes in the growth, protectionist pressures, and competitive forces of the world trading environment that have made it more difficult for these countries to become dynamic exporters of manufactures.
- Country-specific factors, such as political instability, that disrupt the growth of manufactures exports.

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[7] For a discussion of the outward-looking growth policies used by each second-tier LDC, *see appendix A.*

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NIC Successes

***Taiwan** leads the NICs in supplying manufactures to the OECD market with sales of $13.4 billion in 1981. Its exports are dominated by such labor-intensive consumer goods as textiles, footwear, printed materials, and toys. Taiwan is also well on the way to developing its electrical and machine tool industries. Almost 40 percent of the TV sets imported by the United States are made in Taiwan. Moreover, it is slowly breaking into the production of such high-technology manufactures as computers and computer-related equipment.*

*Second-ranking **South Korea** sold $10.8 billion to OECD markets in 1981. Unlike Taiwan, South Korea has emphasized the development of heavy industry and is now a major exporter of iron and steel, metal manufactures, and ships and is emerging as a competitive exporter of automobiles to Third World markets. South Korea has wrested control of the black and white TV-set market from Japan and the United States to become the world's largest manufacturer of this item. The Five-Year Plan for 1982-86 seeks to move the electronics industry into more dynamic lines of consumer products—for example, videotape recorders and players—and into more sophisticated industrial products like telecommunications equipment, office machines, electronic switching boards, and small computers.*

***Hong Kong** ranks third among the NICs in sales of manufactured products to the OECD. Like Taiwan, apparel and other light manufacturing goods dominate Hong Kong's sales. Nonetheless, Hong Kong has successfully caught the wave of consumer demand for such items as calculators, smoke detectors, burglar alarms, electronic games, watches, and telephones. Besides maintaining these lines, Hong Kong plans substantial growth in the export of industrial electronics. The outlook for Hong Kong's manufactures exports is clouded by the political uncertainty surrounding the expiration of Britain's lease with China in 1997.*

***Mexico** produces a broad range of manufactures for a large domestic market and for export, chiefly to the United States. Plants along the US border are important producers of automotive parts, TV sets, electronic components, and appliances. These plants are operated by major multinational corporations, and hence product sophistication and quality are high. In contrast, most other Mexican products are not competitive in OECD markets. In the future, Mexico will probably continue to rely on the steel, transport equipment, textile, and apparel industries as the major source of export earnings, as its international payments problem will preclude significant restructuring of its industries.* 25X1 25X1

*Prior to its troublesome financial problems, **Brazil** was growing rapidly in importance as an exporter of manufactures to OECD countries, making inroads in both US and European markets for automotive parts and subassemblies and iron and steel. Brazil has also emerged as a reliable producer of simple capital equipment, commuter- and trainer-type aircraft, and armaments and has established an electronic data processing industry that leads the Third World in the production and export of locally designed computer equipment. Like Mexico, however, IMF-mandated austerity measures will probably confine Brazil's future exports earnings to its established capital-intensive industries.* 25X1 25X1

*Although **Singapore** ranks last as a NIC exporter of manufactures to OECD countries, its total manufactures exports of $10.1 billion in 1981 make it the fourth-largest NIC exporter of manufactures. Singapore's exports are fairly well diversified. Singapore is the third-largest manufacturer in the world of offshore drilling rigs, and also exports consumer and industrial electronics products and parts. About two-thirds of its manufactures exports are telecommunications equipment, computer parts, TV sets, radios, small appliances, and electrical components. Under its highly publicized "Second Industrial Revolution" program, Singapore seeks to become a high-technology manufacturing sector and regional center for such sophisticated services as banking, insurance, medical consulting, and computer software by the 1990s.* 25X1 25X1

The importance of the government's ***commitment to an export-oriented growth strategy*** is best demonstrated by the experiences of Argentina, India, and Pakistan—countries that are excluded from the list of second-tier LDCs. Each country has developed a substantial industrial base and for the past 10 to 20 years has been an established exporter of manufactures. Yet, each has been unable to maintain the relative growth of these exports. According to development economists, this decline in the importance of their manufactures exports is largely attributable to the import-substitution policies they have pursued. Although policies have been introduced to promote manufactures exports, they have not been comprehensive—many domestic industries are still fostered and protected from foreign competition through trade and foreign exchange controls. As a result, we believe these countries will not quickly become dynamic exporters of manufactures. This judgment also holds true for Indonesia and Tunisia, which also have not completely dismantled their import-substitution policies.

Another important factor preventing several of the second-tier LDCs from joining the ranks of the NICs is their burdensome ***financial problems***. Presently, six of the 11 second-tier LDCs fall within the top 20 LDC debtors as do Argentina, India, and Pakistan (table 4). Of these debt-troubled countries, Argentina, Chile, Indonesia, Pakistan, Peru, and the Philippines have had to introduce IMF-mandated or self-imposed austerity measures. In each instance, the government has trimmed down its outward-looking development strategy by reducing the level of planned investment, partially reinstating some import restrictions, or introducing new export promotion measures to strengthen the competitiveness of the country's traditional agricultural and raw material exports. We believe this retreat from an outward-looking growth strategy will slow the future growth of these countries' manufactures exports.

The second-tier LDCs are also trying to expand their manufactures exports in a ***world trading environment*** substantially different from that which confronted the NICs during their early stages of export-led growth. The most important differences are in the areas of world economic growth, protectionism, and trade competition. In particular:

- *World growth.* Between 1965 and 1975, when the NICs were in the initial stages of export-led growth, the OECD's average annual growth in real GDP was about 4 percent. It has since fallen to roughly 2 percent and, according to private and official forecasters, will probably remain sluggish throughout the remainder of the 1980s—the period in which the second-tier LDCs will be attempting to expand their manufactures exports.

- *Protectionism.* Since 1965 there has been a marked rise in protectionist reactions to LDC penetration of industrial-country markets. The LDCs' preferential access to industrial-country markets under the Generalized System of Preferences (GSP) has been restricted.[8] In addition, industrial countries have made greater use of orderly marketing arrangements, import quotas, and other restrictive measures to protect their domestic markets from the expansion of LDC exports. According to the IMF, the most severe protectionist pressures in the period since 1974 have come in textiles and clothing, footwear, electronics, and chemicals—industries from which the second-tier LDCs plan to launch their manufactures export drive.

- *Trade competition.* Since 1965, the NICs have provided the lion's share of the LDCs' total manufactures exports; in 1980 their share was roughly 70 percent. With the emergence of the second-tier LDCs and other low-cost producers such as China, more countries are now competing for the same markets. This competition has been heightened by the sluggish growth of the world economy. Moreover, several financially troubled LDCs, Brazil and Mexico in particular, are more aggressively promoting their traditional exports—in direct competition with the exports from a majority of the second-tier LDCs.

[8] Under the GSP, industrial countries grant on a bilateral basis duty-free entry of manufactures, semimanufactures, and selected other products from developing countries and territories.

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Table 4
Second-Tier LDCs: Debt Positions, 1982

	Total External Debt [a] (*billion US $*)	Rank [b]	Debt Service Ratio [c] (*percent*)	Comments
Argentina [d]	36.7	3	89	External debt registered a sevenfold increase between 1975 and 1982. This has weakened investor confidence and reduced Argentina's access to world financial markets.
Chile	18.3	9	71	Santiago has relaxed its free market concepts to redress problems caused by an overvalued exchange rate and external debt, which doubled between 1980 and 1982.
Cyprus	0.7	68	14	External financing has not been a constraint to industrial development.
India [d]	21.5	7	14	The repayment of a $4.1 billion drawing from the IMF's Extended Fund Facility, which is to begin in mid-1985, is not sufficient to deter India's industrial development.
Indonesia	23.7	6	20	Sharp reductions in oil export receipts have caused Jakarta to reevaluate $21 billion in planned industrial projects, postponing or shelving projects valued at $13.5 billion.
Jordan	2.5	37	15	External borrowing has not been a constraint to industrial development.
Malaysia	9.9	17	9	A recession-induced squeeze on government finances has prompted Kuala Lumpur to shelve several low-priority development projects.
Pakistan [d]	10.3	14	25	Limited availability of domestic and foreign financing will hamper Islamabad's private-sector investment strategy.
Peru	11.7	12	64	An increasing foreign debt has brought into focus the need for greater economic efficiency and labor-intensive methods of production.
Philippines	16.1	11	33	A mounting balance-of-payments deficit and burgeoning foreign debt, which reached almost $25 billion by yearend 1983, have necessitated that five industrial projects, valued at $5.1 billion, be cut and measures introduced to enhance the competitiveness of traditional labor-intensive exports.
Sri Lanka	2.2	41	16	Communal rioting in July 1983 weakened the confidence of foreign investors, making it difficult to attract foreign capital.
Thailand	11.1	13	18	Bangkok has secured a $500 million World Bank structural adjustment loan, part of which will be used to improve the efficiency of labor-intensive industries.
Tunisia	4.4	25	26	External financing has not been a significant constraint to industrial development.
Uruguay	2.8	33	27	Reductions in exports to debt-troubled Brazil and Argentina have necessitated that Montevideo introduce a flexible exchange rate policy and further reduce trade and exchange controls to enhance export competitiveness.

[a] Includes short-, medium-, and long-term debt.
[b] Relative to all other LDC debtors.
[c] Ratio of total debt service (medium- and long-term principal repayment plus interest payments on debt of all maturities) to exports of goods and services.
[d] Not a second-tier LDC.

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In our judgment, these changes in the world market make it increasingly difficult for the second-tier LDCs to emerge as dynamic exporters of manufactured products. The countries most adversely affected are Argentina, India, Pakistan, Peru, the Philippines, Sri Lanka, Thailand, Tunisia, and Uruguay. Their manufactures exports are largely comprised of textiles, clothing, chemicals, and electronics and, as a consequence, are subject to increasing protectionist tendencies. Their exports are also inhibited by the sluggish industrial-country demand and heightened competition among countries for similar export markets.

Country-specific factors also cloud the prospects for some of the second-tier LDCs to become future NICs. Specifically, Pakistan and Sri Lanka lack several of the important requirements for industrial development. These include the transportation, communications, and financial infrastructure; skilled labor; and high levels of domestic savings. In Sri Lanka, political instability has dimmed the prospects for industry. According to official accounts, the communal riots, which erupted in July 1983, resulted in nearly $150 million in damage to the manufacturing sector and set the economy back some three to five years. Both political and economic disruptions are plaguing Chile, Pakistan, and the Philippines, weakening investor confidence. Finally, Jordan's outward-looking development strategy emphasizes large-scale mineral industries. Because the natural resource base is small, we do not believe these industries will be able to carry the momentum of Jordan's industrial growth over an extended period of time.

Country Prospects

We believe, then, that the NICs are unlikely to be joined by an equally dynamic second tier of LDCs. New LDC sources of manufactures will surely appear, with some achieving rapid export growth. However, in our judgment, the number of NICs will be limited to four or six countries with the country composition changing over time. We believe many of the factors inhibiting the future growth of some of the second-tier LDCs' manufactures exports—a slowly expanding world market for manufactures, mounting protectionism, and heightened competition in trade—will also constrain the growth of the NICs' manufactures exports. As a consequence, the change in the composition of the NICs will more likely be the result of a country falling from its ranks rather than advancing to the status of an industrial country.

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Of the second-tier LDCs, we believe that only Malaysia and, to a lesser extent, Thailand have the potential to vie for a position among the NICs in the next 10 years. Malaysia has already established itself as one of the world's largest exporters of semiconductors and electronic products. We believe its extensive financial, communications, and transportation network, combined with favorable investment incentives and a good international credit rating, makes Malaysia a very desirable place for foreign investment and will assist Prime Minister Mahathir in diversifying industry into the skill- and capital-intensive industries. Thailand's abundant natural resources; political stability during the past four years under Prime Minister Prem; available supply of technically skilled, loyal, low-cost workers; and access to a large Asian market also make it attractive to foreign investors.

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Over the longer term, the contenders for a position among the NICs will likely emerge from Latin American countries rather than Asia. Several countries within this region are building a foundation for strong industrial growth and becoming committed to export-oriented growth policies that promote manufactures exports. Because of the progress achieved to date, we believe that Argentina, Peru, and Uruguay are the most likely of these countries to vie for a position among the NICs. However, because of the smaller base and commodity composition of their manufactures exports, this will not occur until after the turn of the century.

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Some Implications

We do not believe that the magnitude or growth of manufactures exports by the second-tier LDCs will be sufficient to pose a serious competitive ***challenge to the industrial world*** (table 5). Like the NICs in their early stages of export-led growth, the second-tier LDCs will focus on narrowly defined product lines in which they have a comparative advantage. These will largely consist of yarn, fabrics, leather, plywood, cement, assorted chemicals, and other labor-intensive, standardized, intermediate goods.

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Table 5
Second-Tier LDCs and NICs:
Penetration of OECD Import Markets [a]

Country Group	Year	Total Manufactured Products		Basic Manufactures		Machinery and Transport Equipment (7)	Miscellaneous Manufactures	
		(5 to 8 less 68) [b]	Chemicals (5)	Total (6 less 68)	Of Which: Textiles (65)		Total (8)	Of Which: Clothing (84)
Second-tier LDCs [c]								
Value (*billion US $*)	1975	1.3	0.1	0.4	0.1	0.4	0.4	0.3
	1980	6.3	0.4	1.4	0.5	2.3	2.2	1.4
Share of OECD imports	1975	0.4	0.3	0.5	0.7	0.3	0.9	1.9
(*percent*)	1980	1.1	0.5	1.0	1.8	0.9	2.0	4.6
Key sources, share in 1981 (*percent*)		Malaysia, 0.3	Tunisia, 0.2	Thailand, 0.4	Thailand, 0.6	Malaysia, 0.5	Philippines, 0.8	Philippines, 1.6
		Philippines, 0.3		Malaysia, 0.2	Peru, 0.4	Philippines, 0.3	Indonesia, 0.3	Tunisia, 1.1
		Thailand, 0.2		Philippines, 0.2	Malaysia, 0.3	Thailand, 0.1	Thailand, 0.3	Thailand, 0.7
					Philippines, 0.2		Tunisia, 0.3	Malaysia, 0.5
					Tunisia, 0.2			
NICs								
Value (*billion US $*)	1970	3.7	0.1	0.8	0.3	0.7	2.1	1.1
	1975	14.1	0.4	2.8	1.2	3.6	7.3	4.2
	1980	46.5	1.6	8.8	2.3	13.8	22.4	10.2
Share of OECD imports (*percent*)	1970	3.0	0.8	2.3	4.2	1.2	10.9	22.1
	1975	4.7	1.0	3.6	7.2	2.7	14.8	29.5
	1980	7.8	2.0	6.3	8.6	5.2	20.3	33.3
Key sources, share in 1981 (*percent*)		Taiwan, 2.2	Brazil, 0.5	South Korea, 2.3	South Korea, 3.3	Taiwan, 1.4	Hong Kong, 6.8	Hong Kong, 13.4
		South Korea, 1.8	Mexico, 0.5	Taiwan, 1.8	Taiwan, 2.1	Mexico, 1.0	Taiwan, 6.2	South Korea, 10.3
		Hong Kong, 1.8			Hong Kong, 1.4	Singapore, 0.9	South Korea, 4.9	Taiwan 7.5
					Brazil, 1.3			

[a] Excludes Iceland, New Zealand, Portugal, and Turkey.
[b] SITC classifications are given in parentheses.
[c] Excludes Sri Lanka, Cyprus, and Jordan.

Source: UN *Yearbook of International Trade Statistics.*

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Second-Tier LDCs: Potential Lines of Export Competition

Country	*Manufactures Exports*
Argentina [a]	*Chemicals, textiles, leather products, iron and steel, tools, and clothing.*
Chile	*Inorganic chemicals, plastic materials, metal manufactures, transport equipment, and iron and steel.*
Cyprus	*Footwear, clothing, fertilizer, cement, and paper products.*
India [a]	*Gems and jewelry, leather manufactures, textiles, hand tools, bicycle and automobile parts, and computer software.*
Indonesia	*Textiles, plywood, transistors, and fertilizer.*
Jordan	*Phosphate fertilizer, cement, chemicals (mainly detergents and soap), and wood products.*
Malaysia	*Textiles, semiconductors, and electrical appliances*
Pakistan [a]	*Textiles, clothing, fertilizer, carpets, sporting goods, and surgical instruments.*
Peru	*Clothing, textiles, cement, iron and steel, ships, jewelry, and articles of plastic.*
Philippines	*Clothing, furniture, footwear and leather goods, transistors, and telecommunications equipment.*
Sri Lanka	*Textiles, rubber manufactures, furniture, and electrical and electronic appliances.*
Thailand	*Transistors, electrical switches, clothing, electrical appliances, and toys.*
Tunisia	*Clothing, textiles, chemicals, and mechanical and electrical appliances.*
Uruguay	*Textiles, clothing, footwear, leather products, soaps, fertilizer, dyes, electrical components, and transport equipment.*

[a] *Not a Second-tier LDC.*

Over the longer term, the focal point of the second-tier LDCs' competition with industrial-country producers probably will spread beyond textiles and clothing exports as these LDCs attempt to develop more sophisticated lines of manufactures exports. Because of recent advances in manufacturing techniques, there are a number of mature, technologically stable industries that are suitable for transfer to these LDCs. These include such labor-intensive consumer and leisure goods as toys, printed materials, and small electrical appliances as well as electronic components. As in the case of textiles and clothing, it is unlikely that most of the low-cost producers of these products will become major exporters; however, their movement into the production and export of these manufactures will pose an additional challenge to US and other industrial-country producers. 25X1

At the same time, the emergence of the second-tier LDCs will generate market opportunities for several economic sectors in the industrial countries. As these LDCs build their industrial base, prospects for sales of both capital equipment and management services will improve. Moreover, as the second-tier LDCs' incomes rise, the demand for industrial-country consumer goods will also likely rise. While it is impossible to prejudge whether market gains will outweigh market losses, it is clear that the emergence of these second-tier LDCs will alter market prospects in a broad range of industries and, in the process, spark political debate in many industrial countries. 25X1

As the second-tier LDCs increase their manufactures exports during the 1980s and beyond, we expect greatly heightened ***competition between them and the NICs.*** The second-tier LDCs and Argentina, India, and Pakistan are located in two generally distinct regions of the world. Argentina, Chile, Peru, and Uruguay are in Latin America, and the remainder are largely located in Asia. These regions also coincide with where the NICs are located (figure 2). Moreover, like the NICs, most of the second-tier LDCs are putting greater emphasis on manufactures exports as a source of future industrial growth. Most private economic forecasters, however, project that the growth in world demand for these products will be slow. Consequently, we believe this will lead to a

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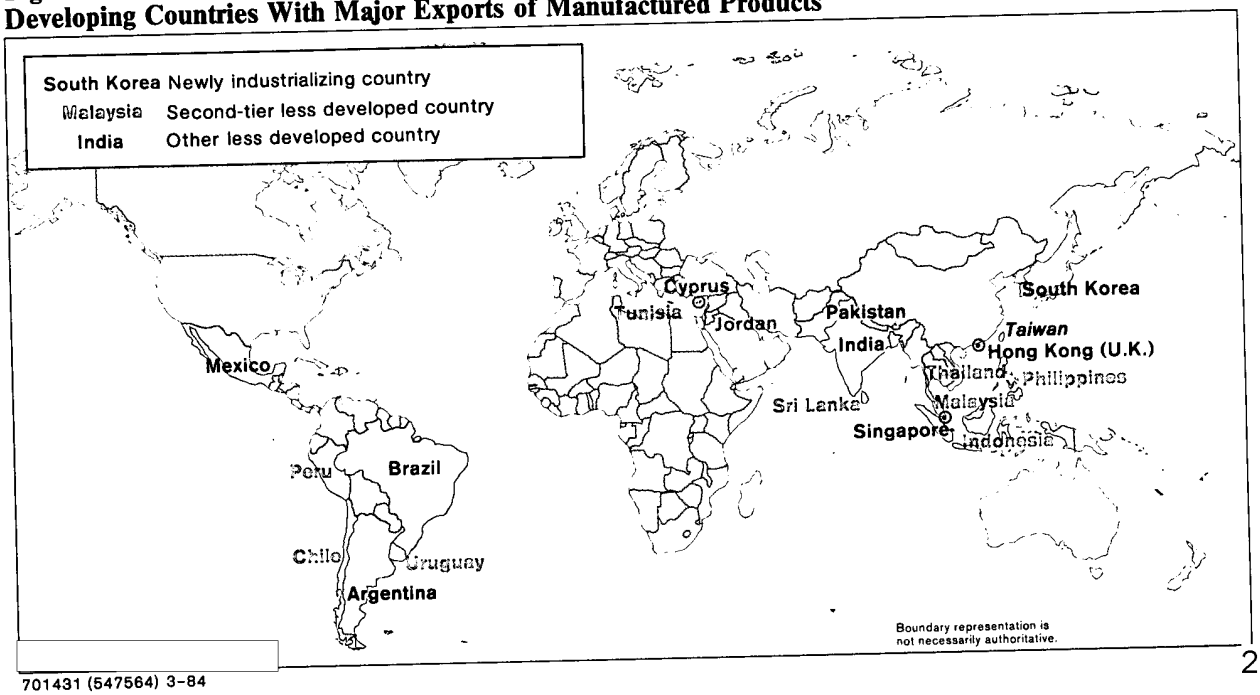
Figure 2
Developing Countries With Major Exports of Manufactured Products



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substantial increase in the competition both within and between these regions as the second-tier LDCs and NICs compete against each other to capture a greater share of a slowly expanding world market for manufactures. As the second-tier LDCs move into the low- and medium-technology area, one of the results could be to effectively force the NICs to push more aggressively into high-technology industries. This would only serve to intensify a trend which is already occurring and in the process weaken industrial-country control over the sales of high-technology items.

The resulting upswing in inter-LDC competition will provide industrial-country negotiators with a tactic for use in future trade negotiations. By playing the needs of one group of LDCs against those of another, the negotiators may gain leverage that can be used to the advantage of the industrial countries. This tactic could prove useful in the General Agreement on Tariffs and Trade (GATT), the UN Conference on Trade and Development (UNCTAD), and other international economic forums as well as in the negotiation of such trade agreements as the Multifiber Arrangement, which governs the trade in textiles and apparel between industrialized importers and LDC exporters.

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Impact of the Unexpected 25X1

In this study, we have identified and analyzed those trends in the world economy and in each country that most likely have the greatest bearing on the growth of the second-tier LDCs' manufactures exports (table 6). There is no certainty, however, that these trends will continue. An unanticipated adjustment in one or more of the worldwide or country-specific trends may affect the performance of a second-tier LDC's manufactures exports in a manner substantially different from what we have projected. In some instances, we believe this may have important implications for the industrial countries. A historical example of this is South Korea.

Other Potential Problem Areas

Greater use of trade-distorting measures by LDCs. *To promote their manufactures exports in a more competitive and protectionist world trading environment, the second-tier LDCs probably will resort more frequently to trade-distorting measures that protect domestic industries and enhance the competitiveness of manufactures exports targeted for expansion. Included in these measures are protective tariffs, controls on foreign investment such as performance requirements, and export and preexport subsidies.*

Strains on the international financial system. *In their effort to develop an export-oriented manufacturing base that is competitive in the world market, several second-tier LDCs probably will rely on the international capital market as a primary source of financing. Given the prospects for slower growth in world demand and increased competition for this demand, it is likely that some of these countries will be confronted with debt repayment problems. This would slow their pace of industrial growth and could put an additional strain on the international financial system.*

Surge in counterfeiting. *Loose copyright and patent laws in most of the second-tier LDCs may lead to widespread pirating of products as enterprising businessmen attempt to expand their manufactures exports. There are already several NIC counterfeiters, Hong Kong and Taiwan in particular, that make imitations of products ranging from designer jeans and best-selling books to computers and computer-related equipment. An influx of additional counterfeiters would contribute to lower international sales by the companies that hold the rights to produce these products and damage their image and reputation if the imitations are of poor quality. The health and safety of consumers is also affected when these counterfeit products are used in the automotive, aircraft, chemical, drug, cosmetic, medical devices, and electronic industries.*

Twenty years ago few if any analysts would have predicted, on the basis of trends in its political, economic, and military performance, that South Korea would emerge as an important exporter of manufactures. However, because of an unforeseen commitment on the part of the government and people to an export-oriented growth strategy during a period in which world growth was unexpectedly strong, it has risen to the ranks of the NICs and is presently a source of strong competition for many industrial-country producers of manufactures. 25X1

The growth prospects for a second-tier LDC's manufactures exports may be altered by a change in the trend of one or more country-specific factors. For example, the discovery of a valuable resource in Argentina that substantially reduces its financial problems or a shift in New Delhi's economic development strategy from inward looking to export-oriented trade, investment, and exchange rate policies could launch either country to the forefront of the LDC manufactures exporters. In contrast, if Malaysia's financial position were mismanaged and it acquired a massive external debt while developing its heavy-industry sector, or if Thailand were to undergo a political upheaval that impaired investor confidence, these countries could be eliminated as the top contenders for a position among the NICs. We believe any country-specific adjustment that enhances the competitiveness of a second-tier LDC's manufactures exports would only have a marginal impact on the industrial countries' manufactures exports because it would be limited to the country in which it arises. 25X1 25X1 25X1

We believe an unanticipated change in the trend of the world economy would have a greater impact on the second-tier LDCs' manufactures exports than a change in the country-specific factors because it affects all of the second-tier LDCs. Factors that might influence the climate of the world economy include the openness of the trading system, pace of technology transfer, and availability of international finance. Any adjustment that leads to a deterioration in the climate of the world economy would reduce the 25X1

Table 6
Second-Tier LDCs: Country-Specific Obstacles to Rapid Manufactures Export Growth

	Lack of Commitment to Outward-Looking Growth Policies [a]	Financial Constraints	Other Factors				
			Political Instability	Insufficient Infrastructure	Shortage of Skilled Labor	Narrow Export Market	Limited Natural Resources
Argentina [b]	M	H	M				
Chile		M	L				
Cyprus			L	L		L	
India [b]	M			M			
Indonesia	M	M			H		
Jordan			M			L	M
Malaysia					L		
Pakistan [b]	L	L	L	M	M		
Peru		M					
Philippines		H	M				
Sri Lanka			L	M	L		
Thailand			L				
Tunisia	M				M		
Uruguay			L			L	

[a] The severity of each factor is indicated by an H (High), M (Medium), or L (Low); if no indicator is given, the factor is not considered an obstacle to the growth of the country's manufactures exports.
[b] Not a second-tier LDC.

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growth prospects for the second-tier LDCs' manufactures exports, making it even more difficult for them to attain NIC status. If, by contrast, there is an unanticipated improvement in the condition of the world economy, this would increase the gains from adopting or strengthening an outward-looking growth strategy. This in turn would accelerate their development and generate even more competition for industrial-country producers. At the same time, it would increase the odds of fissures within the LDC ranks as the second-tier LDCs moved away from the rest of the LDCs.

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Appendix A

Prospects for Individual Second-Tier LDCs

Africa

Tunisia. Tunisia's Sixth Five-Year Development Plan (1982-86) marked the first phase of a longer term program to shift the focus of industrial growth from mining and energy to manufacturing, according to World Bank reports. In the eight years prior to 1982, Tunisia had relied on petroleum and phosphate rock for more than 60 percent of its export earnings. Recognizing that its known exploitable reserves of oil and gas were approaching depletion and that the terms of trade for its mineral exports were likely to deteriorate over the coming years, Tunisian planners decided to restructure the industrial sector.

According to the plan, the industrial sector is to be restructured by stepping up investment in labor-intensive, export-oriented manufacturing industries. According to official reports, of the roughly $14 billion in total investment projected under the plan, nearly $3 billion is allocated to manufacturing. This accounts for 19.5 percent of total investment, up 2.5 percentage points over the previous five-year plan. Within the manufacturing sector, the textile, leather, electrical, and mechanical product industries have been singled out for particular expansion; the mechanical and electrical product industries are to absorb nearly one-fourth of the total investment in manufacturing.

In our judgment, Tunisia has the potential to successfully restructure its industrial sector. It has developed a broad manufacturing base comprised of textile, clothing, chemical, machinery, and electrical product industries from which to expand. These industries are manned by a work force with good general and technical skills. Moreover, because of its proximity to Western Europe, Tunisia has a distinct edge over most other developing countries in terms of transport speed, reliability, and cost in servicing this market. The major disadvantage is its high labor costs, especially for unskilled and semiskilled workers. The government must also take actions to resolve its increasing budget deficit and foreign payments problem. Because of the riots that erupted in early January when bread subsidies were eliminated, we believe the government will have to implement other less politically sensitive measures, such as postponing some development projects, to reduce government expenditures. The net result being a slowdown in Tunisia's progress toward reaching the goals of the current five-year plan. 25X1

Although an important first phase in the future development of its industrial sector, the sixth plan probably will not result in a marked increase in the growth of Tunisia's industrial exports. Tunisia has traditionally followed an inward-looking strategy in its industrialization efforts, emphasizing policies that promote import substitution. Until Tunis becomes more fully committed to an export-oriented industrial strategy, which will require adjusting the system of protection, encouraging foreign investment, improving marketing capabilities, and expanding the incentive system, the labor-intensive export-oriented manufacturing industries will not be the major source of industrial growth. As a result, we do not foresee Tunisia's becoming a NIC in the near future. 25X1 25X1

Asia

India. With the exception of the NICs, India is the largest LDC exporter of manufactured products. In 1980 its foreign sales of manufactures approached $5.7 billion. According to UN trade statistics, India exports a diversified array of manufactured products ranging from textiles and footwear to electronics and computer software. The dynamic industries of the last decade were those producing gems and jewelry, bicycle and automobile parts, trucks, scooters, diesel engines, hand tools, footwear, and textiles. Much of the growth in India's manufactures exports has been recent. Between 1970 and 1975, India's manufactures exports increased only 0.2 percent per year in real terms. In the period from 1975 to 1980, they grew at 13 percent per year. Although impressive, this growth rate is below the 18-percent rate achieved by the NICs during the same period. As a consequence, India is not included in our category of second-tier LDCs. 25X1 25X1

India's industrial growth is by no means all new. For well over 30 years, New Delhi has sought to make India industrially self-reliant. Under pervasive government control, India has drawn together its skilled and unskilled workers, abundant supply of raw industrial resources, indigenous entrepreneurial talent, and foreign technical and financial assistance to develop an extensive industrial base. As a result of this effort, India ranks within the top 20 industrial powers in the non-Communist world, producing everything from machine tools and textile machinery to nuclear reactors and petrochemical plants. Because of a rigid import-substitution policy that has been pursued since the early 1950s, most of the growth in industrial production has been used to meet the needs of the domestic market rather than for export.

Since her return to office in January 1980, Prime Minister Gandhi has been altering the inward-looking nature of earlier Indian economic policy. As part of this liberalization effort, several initiatives have been taken in industrial and trade policy to improve the structure and performance of India's manufactures exports.[9] In particular:

- *Industrial and import policies.* According to government planners, a major objective of industrial policy is to improve the productive efficiency of manufactures exporters. The main thrust of these policy changes has been to relax the industrial regulations applying to exporters and to liberalize import policy to meet the needs of exporters. Steps have been taken to exclude export production from licensing constraints on productive capacity and to establish special incentives for the establishment of 100-percent, export-oriented units outside of free trade zones. Measures have also been introduced to increase the exporters' access to inputs, in particular raw materials and intermediate goods, and to foreign technology. Moreover, duty exemptions on imports for export production have been expanded.

- *Promotion of exports.* Along with the more liberal industrial and import policies, the government is working to ensure the profitability and competitiveness of exports. To this end, efforts have been made to alleviate the negative impact of high indirect taxes. A duty drawback scheme and a cash compensatory support scheme are the principal means to compensate for the effect of the indirect taxes. Exporters also benefit from lower income taxes and are reimbursed for their market development expenses.

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Although the Government of India has been gradually introducing a liberalization program, these measures do not amount to a comprehensive revision of economic strategy, in our view. The basic regulatory structure remains intact, and, if recent actions—such as New Delhi's strengthening of import controls on technology already produced within the country—are any guide, Prime Minister Gandhi still favors government intervention in the economy. We believe the liberalization measures, in conjunction with India's vast production base, entrepreneurial skills, and technological capacity, will assist the manufacturing sector in improving its efficiency and expanding its exports. However, we believe that New Delhi's ambivalence about the virtues of export-led development, the presence of a complex bureaucracy, the wasteful support of unproductive and small industries, New Delhi's reluctance to quickly respond to industry's needs, and shortages and bottlenecks in the infrastructure sectors will prevent India from taking on the dimensions of a NIC in the near future.

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Indonesia. According to government statistics, a key objective of Indonesia's long-run economic development strategy is the rapid expansion and diversification of the industrial sector. Under development plans Repelita I (1969-73) and Repelita II (1974-78), industrial policy focused on expanding import-substituting industries in which Indonesia was thought to have a long-run comparative advantage. These industrialization programs had a pronounced impact on the composition of Indonesia's manufactures exports. Between 1975 and 1980, exports of fertilizer, textiles, plywood, cement, electrical transistors, and clothing jumped from 10 percent to 75 percent of total manufactures exports. Following the oil boom of 1979-80, Indonesian technocrats—with the support of President Soeharto—decided to spend several billion dollars under

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Repelita III (1979-83) to further develop the basic industries and nonoil export manufacturing sectors. Projects slated for expansion included the basic metal, fertilizer, cement, paper, and hydrocarbon industries as well as several infrastructure projects such as transportation and power.

In late 1981 Indonesia began to experience the effects of the global recession and a sharp decline in the price and volume of oil exports. To halt the deterioration of Indonesia's financial position, Jakarta implemented several tough policy measures.[10] These included a 10-percent cut in planned Fiscal Year 1982/83 budget expenditures; a 28-percent devaluation of the rupiah; banking reforms to liberalize the complex regulatory system and to encourage domestic savings and investment; and, perhaps most important, the shelving or scaling down of more than $13.5 billion of foreign-financed, public-sector industrial projects. According to official reports, these austerity measures have eased the immediate concerns of foreign lenders and investors and should lead to a resumption in industrial growth in 1984, but at a considerably slower pace than in the 1970s.

Although Soeharto's austerity program should improve Indonesia's international payments position, we do not believe these measures will be sufficient to propel Indonesia to NIC status over the longer term. In particular:

- The rescheduling of the large-scale industrial projects effectively canceled many of the export-oriented industries that Indonesia sought to develop.
- We do not believe that Jakarta will successfully address the import-substitution bias of its trade policies and implement the export-oriented trade and investment policies, recommended by the World Bank and others, which are needed to achieve rapid industrial growth.
- Indonesia's labor force is growing by nearly 2 million workers a year. Although the government has begun to redirect some of the savings from the rescheduled industrial projects to labor-intensive projects, we do not believe that this will be sufficient to create enough jobs for all the displaced and new workers.
- Mounting protectionism in developed-country markets and product quality deficiencies in many of Indonesia's exported manufactures will also limit the export growth and, in turn, the pace of industrialization.

Malaysia. Malaysia leads the second-tier LDCs in supplying manufactures to the world market, with exports of $2.4 billion in 1981. Almost $1.3 billion of these exports were electronic products. Malaysia is one of the world's largest exporters of semiconductors and air conditioners. Electronic products are exceeded only by petroleum and timber as a source of export earnings, representing more than 12 percent of total export earnings. The second-largest category of manufactures exports is textiles, which account for only 12 percent of the total. Manufactures exports comprise about 20 percent of total earnings.

Multinational corporations have played a key role in the growth of Malaysia's manufactures exports. Following the introduction of an export-oriented development strategy in 1968, which provided liberal trade and investment incentives, several multinational corporations set up operations in Malaysia. Using it as an offshore processing and assembly center, they were able to rapidly expand their manufactures exports to both developed-country and LDC markets. Leading US multinationals—such as Motorola, Inc., RCA, National Semiconductor Corp., and Texas Instruments—and foreign multinationals—such as Matsushita Electrical Industrial Co., Hitachi, Ltd., and Philips—elevated Malaysia to its position as one of the major world exporters of electronic products.

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In 1981 Malaysia embarked on a new phase of industrialization. According to press reports, this move was the outcome of the government's dissatisfaction with the current pattern of manufacturing, which stresses the assembly and processing of imports. This resulted in a minimum of technology transfer, an inadequately developed skilled labor force, and a low degree of value added domestically. Promoted by Prime Minister Mahathir, under such catchwords as "Look East" and "Malaysia, Inc.," the new industrial development plan envisions a manufacturing sector based on state-owned and capital- and skill-intensive heavy industry. Sectors favored by this plan include the motor vehicle, basic metals, general engineering, cement, oil refining, and petrochemicals industries.[11]

In our judgment, Malaysia has the greatest potential of the second-tier LDCs to attain NIC status. Discussions with businessmen in Malaysia indicate that its extensive financial, communications, and transportation infrastructure combined with favorable investment incentives and a good international credit rating make Malaysia a very desirable place for foreign investors and will assist it in developing its heavy-industry sector. Moreover, according to recent press accounts, the political problems in Malaysia's Asian competitors, such as Sri Lanka, the Philippines, and Hong Kong, have enhanced the country's attractiveness to foreign investors.

We believe, however, there are three potential problems that may delay or deter Malaysia's transition to a major exporter of capital- and skill-intensive heavy manufactures. First, Malaysia faces serious problems of worldwide overcapacity in all of the main industries it hopes to enter, and we see little prospect for any significant change in these conditions over the longer term. As a consequence, the viability of its promoted heavy industries may be threatened by foreign competition in both domestic and foreign markets. The second area of uncertainty surrounds Malaysia's mounting external debt. We are not concerned by the magnitude of the debt but the pace of its buildup. Between 1975 and 1982, total public-sector debt increased more than fivefold to $9.9 billion; the debt service ratio increased from 6 to 9 percent. Prime Minister Mahathir's industrialization program focuses on industries that require substantial initial investments, have long payback periods, and are not intended as a major source of foreign exchange earnings. We believe that over the longer term this could eventually put excessive strains on Malaysia's foreign exchange position and cause it to scale back the industrialization program. Finally, Malaysia has a shortage of qualified workers. At present, there is only a small indigenous group of skilled workers, and most of the unskilled work force does not speak English. Several industry officials, disheartened by the prospect that there will be little improvement in the work force, have told US officials that they see this as a drawback to Malaysia's future industrial development.

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Pakistan. Based on the 7-percent real annual growth of manufactures exports between 1975 and 1980, Pakistan does not qualify as a second-tier LDC. It is discussed here, however, because of the magnitude of these exports, which totaled $1.3 billion in 1980. Pakistan's manufactures export base is fairly diversified, ranging from textiles, chemicals, cement, and transport equipment to surgical instruments. Textiles and clothing are the single most important export, accounting for 77 percent of total manufactures exports in 1980.

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When the present government of President Mohammad Zia-ul-Haq came to power in 1977, it introduced a policy of reducing the reliance on heavy public-sector investment in capital-intensive industries. The government began gradually encouraging private-sector investment while reducing the scope and improving the efficiency of the public industrial sector. According to diplomatic reporting, a key objective of the Sixth Five-Year Development Plan (FY 1984-88), which began 1 July 1983, is to shift the balance of industrial investment to the private sector so that it will generate the desired industrial growth. Four major areas in the manufacturing sector are targeted for expansion under the plan: steel-based engineering

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goods; the established export-oriented cotton, textile, sugar, and food-processing industries; agricultural machinery; and minerals, especially coal, copper, phosphates, and gypsum. The private-sector revival is to be accomplished by liberalizing many existing disincentives to investment. These would include trade barriers, exchange controls, irrational taxation rates, and cumbersome redtape.

In our judgment, several factors will undermine the private-sector investment strategy. These include:

- *Infrastructure shortages.* During the past two years there have been numerous press reports of frequent shortages of power and gas. These shortages are likely to continue despite the projected completion of additional thermal and hydropower generating plants and investments to increase gas supplies during the next three years. Road, telephone, and water services are also generally deficient.

- *Limited availability of domestic financing.* According to US Embassy reports, Pakistan has an interest rate structure under which lending rates decline and deposit rates rise with maturity. As a result, it is unprofitable for domestic banks to make long-term loans.

- *Shortages of skilled manpower.* A large share of the qualified managers, technicians, and skilled laborers have migrated to the Middle East where wages are higher. The remaining work force tends to be inefficient and recalcitrant, according to the World Bank.

- *Doubts about the political stability of Zia's regime.* According to US Embassy reports, the political unrest since August 1983 has shaken private-sector confidence in the regime's stability. These reports also indicate that investors are hesitant to tie up their resources in any project with a relatively long gestation period.

As a result, we believe the prospects for the private sector's filling the investment void left by the public sector are not encouraging and that the manufacturing sector will probably not achieve the revival sought under the sixth development plan.

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The Philippines. The Philippines is the third-largest second-tier LDC exporter of manufactures. In 1980 its manufactures exports totaled $1.2 billion or 21 percent of total exports. This represents a substantial increase over the 7-percent share registered in 1970. During this period, the commodity composition shifted from plywood to clothing, footwear, and furniture. Since 1980 the Philippines has also become an exporter of such electrical products as transistors and telecommunications equipment.

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In 1980 the Philippines Government adopted a comprehensive structural adjustment program that aimed at putting its manufactures export performance on a par with the other Association of Southeast Asian Nations (ASEAN) countries. The strategy of the program was to shift the import-substituting industries to labor-intensive, export-competitive manufacturing operations. According to Philippine planning officials, existing import-substitution industries will be modernized and expanded and the government will spur, through changes in industrial and trade policy, the development of capital-intensive, intermediate-good, export-oriented industries. The key objectives of the plan are to generate jobs for the rapidly growing labor force (projected by Manila to increase 3.7 percent annually through the mid-1980s), reduce the dependence on exports of primary agricultural and mineral commodities, and economize on foreign exchange in order to increase investment.

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Initially, according to World Bank studies, Manila had intended to achieve the objectives of the structural adjustment program by means of tariff reform, import liberalization, financial sector reform, and industrial restructuring. However, a significant deterioration in the terms of trade during 1980-82, emanating from depressed world market conditions, low commodity prices, and increased protectionist tendencies among its trading partners, made it increasingly difficult for the Philippines to achieve the program's objectives. This forced Manila to introduce a second phase of its structural adjustment program in mid-1983, which strengthened the existing policies. In addition to major revisions in industrial incentives and

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investment promotion policies to enhance the investment climate, new export promotion measures have been implemented to strengthen the competitiveness of the Philippines' traditional labor-intensive exports. These measures focus on seven priority products: clothing, furniture, electronics, gifts and housewares, footwear and leather goods, fresh and processed food, and construction services.

A mounting balance-of-payments deficit and crippling foreign debt have also necessitated that Manila implement several austerity measures to arrest the deterioration in the country's financial position. According to Philippine planning officials, these measures include the imposition of temporary import surcharges as well as a sharp reduction in planned investment expenditures. While not changing the overall objective of the structural adjustment program, we believe these actions will slow the pace of the transition to the outward-looking development strategy and, consequently, take the Philippines longer than originally expected to achieve the program's objectives.

In our judgment, the current poor state of the economy, mounting financial strains, and debt repayment problems are only one facet of several factors that will hinder the Philippines' structural adjustment program. President Marcos' deteriorating health and the assassination of opposition leader Benigno Aquino Jr. have complicated the Philippines' outlook by injecting another element of uncertainty concerning the political stability and ability of the country to quickly recover from its economic problems. The Philippines also suffers from another inherent problem. Many of the politically powerful elites control economic interests that would be damaged by the opening of the economy to competition.[12] As a consequence, we believe they will exert their influence to thwart the structural adjustment program.

Sri Lanka. In 1977 the then newly elected President Jayewardene launched a far-reaching economic liberalization program. A key objective of the program was to develop an export-oriented manufacturing sector. To promote the development and export of manufactured products, numerous tax and export restrictions were lifted and free trade zones established. Initially, there was a significant increase in manufacturing output and trade. However, from mid-1979 onward the manufacturing sector's performance was not as strong as had been expected, showing little real increase and diversification. The main thrust of development was in textiles and clothing. Between 1979 and 1982, textile and clothing exports almost tripled in value to $185 million and their share of total exports increased from 7 percent to 18 percent.

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According to the World Bank, the main reasons for the disappointing growth of the export-oriented manufacturing sector were: a tariff structure that favored import-substitution over production for export, a real appreciation of the rupee that impaired Sri Lanka's competitiveness in foreign markets, and a tax structure that has favored the substitution of capital for labor when labor was in abundant supply. The government took steps in early 1983 to redress this situation by changing tariff, exchange rate, and tax policies. In particular, Colombo eliminated many of the tax and tariff incentives that previously promoted capital-intensive industries. These were replaced by incentives that encourage investment in the quick-yielding and export-oriented projects in which Sri Lanka has a comparative advantage—primarily agriculture and agro-based industries. According to government planners, this is the first of several steps that will be taken to adjust the structure of the economy.

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Although the government is adjusting its industrialization policies, we do not believe Sri Lanka will become an important exporter of manufactured products in the near or medium term. The reasons for this are threefold. First, the economy lacks several of the important requirements for industrial development. These include infrastructure (for example, transportation and power), skilled labor, entrepreneurial and management talent, and institutional support for financing and promoting industrial development and industrial export expansion. Second, because the government plans to promote agricultural industries, we believe manufactures will decline as a share of total

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exports. Finally, the communal rioting between Sri Lanka's majority Sinhalese and minority Tamils, which occurred in July 1983, resulted in more than $150 million of damage to the manufacturing sector, a loss of confidence by foreign investors, and a "brain drain" of qualified Tamil personnel. According to statements by the Minister of Finance and Planning, which have been confirmed by businessmen in Sri Lanka, this brief wave of violence and destruction will reduce economic growth in the near term.

Thailand. Thailand ranks second among the second-tier LDCs in total exports of manufactured products, with sales of $1.6 billion in 1980. Between 1970 and 1980, manufactures' share of total exports leaped from 5 percent to 25 percent. The most rapid gains occurred in clothing and electrical machinery exports. By upgrading equipment and improving marketing channels, the textile industry has gradually moved away from textile to clothing exports. Similarly, several multinational companies have transferred some of their production lines for electrical switching gear to Thailand. As a consequence, electrical switching gear's share of total manufactures exports increased by 15 percentage points between 1975 and 1980 to 17 percent.

The rapid growth in Thailand's manufactures exports originated in small- and medium-sized import-substituting firms that were promoted by a moderately protective tariff structure. According to World Bank and government studies, this protection has bred inefficient infant industries—notably vehicle assembly, electronics, electrical appliances, light engineering, and textiles—that are becoming less competitive in international markets. To upgrade these inefficient overprotected industries, Thai planners, aided by World Bank economists, have designed an ambitious export-oriented industrial development scheme. Incorporated in the Fifth Five-Year Development Plan (1982-86), this scheme includes measures to lower tariff barriers, promote exports through rebates and export credits, further liberalize foreign investment policy, and extend export promotion incentives to small business. In broad terms, the aim of these measures is to follow the NICs in the highly competitive light industrial products in which Thailand has both a comparative advantage in manufacturing and a large domestic—as well as potential export—demand. At the same time, however, Thailand is less likely to follow the NICs down the road of diversification into capital-intensive basic steel, other metals, and heavy chemical and engineering industries. 25X1

The US Embassy in Bangkok has stated that investor's uncertainty about Thailand's political stability, unwillingness to work with a complex bureaucracy, and inexperience in managing the Thai work force have been major impediments to the inflow of foreign direct investment. This situation is changing, however.[13] According to recent press reports, more and more investors are becoming bullish on Thailand's industrial outlook. This is attributed to the country's abundant natural resources; political stability during the past four years under Prime Minister Prem; available supply of a technically skilled, loyal, low-cost workers; and access to a large Asian market. Moreover, Bangkok has secured a $500 million World Bank structural adjustment loan, part of which is to be used to improve the efficiency of its labor-intensive manufacturing activities. As a consequence, we believe that Thailand has the potential to enter into the ranks of the NICs within the next 10 years. 25X1

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Latin America

Argentina. Like India and Pakistan, Argentina does not qualify as a second-tier LDC because of the lower growth rate of its manufactures exports. However, it is a relatively large LDC exporter of manufactures, with total sales of roughly $1.9 billion in 1980. The manufactures exports are fairly diversified; 21 percent of the total is comprised of chemicals, 36 percent is basic manufactures, 28 percent is machinery and transport equipment, and the remaining 15 percent is miscellaneous manufactures. Since 1975 the fastest growing exports have been leather products, clothing, iron and steel, and organic chemicals. 25X1

The government of Argentina has tried to promote the expansion of manufactures exports. The first attempts can be traced to 1976 when Buenos Aires broke from

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its longstanding development strategy of import substitution and introduced policies intended to restructure the economy in line with its comparative advantage in international trade. Although numerous policy measures were introduced to open the economy, Argentina has been only partially successful in expanding its nontraditional exports. According to the World Bank, these efforts have been thwarted by several factors, including:

- *Appreciation of the exchange rate.* Exchange rate policy pursued until 1982 led to overvaluation of the peso. This discouraged needed foreign investment, reduced the competitiveness of exports, and encouraged imports of products that could be efficiently manufactured domestically.

- *Serious external debt problem.* Argentina's external debt ballooned from $4.9 billion in 1975 to $36.7 billion in 1982, more than a sixfold increase within a seven-year period. This unprecedented increase in Argentina's external debt weakened investor confidence, depleted its reserves of foreign exchange, and prompted a capital outflow.

- *Uncertain political and economic stability.* Since 1976 there have been four changes in government leadership with as many changes in the economic policies pursued. This has resulted in numerous inconsistencies in the formulation and implementation of the policies and eroded public confidence both domestically and abroad.

Argentina's current economic and political problems have not destroyed its rich natural and human resource base nor its long-run development potential. However, the newly elected President Raul Alfonsin has much to accomplish in order to capitalize on these strengths and potential. Given the seriousness of the financial problems confronting Argentina, we do not anticipate that the new civilian government can quickly restore business confidence and lay the basis for economic recovery and trade liberalization. In fact, several businessmen with interests in Argentina project that it will be at least 10 years before the economy returns to the level of performance that it achieved in 1979 and 1980. As a consequence, Argentina will not become a dynamic exporter of manufactures in the near future.

Chile. In 1975 Chile began pursuing a free market model of economic development. After an initial shock from the shift in policies, the country enjoyed a sustained period of economic success in which exports tripled in value and became more diversified. One sector to benefit from this policy shift was manufactures. Between 1975 and 1980, manufactures exports share of total exports rose from 10 percent to 14 percent. The largest and fastest growing component has been chemicals, which is largely comprised of inorganic chemicals and plastic materials. In 1980 chemicals accounted for 62 percent of manufactures exports, an increase of 14 percentage points over 1975. Other manufactures exports to register substantial gains include iron and steel, metal manufactures, and transport equipment. 25X1

Chile's rapid manufactures export growth came to an abrupt halt in 1982. According to financial analysts, this was caused by an overvalued exchange rate, a rapidly accumulating external debt that doubled between 1980 and 1982 to $18.3 billion, and the recession in the world economy. Particularly hard hit were wood, industrial, and mineral products exports. Without abandoning its free market concepts, Santiago has attempted to revitalize exports by taking a more active role in the economy. These actions include a major devaluation of the exchange rate, a general increase in import duties, and imposition of foreign exchange controls. 25X1

In our judgment, the prospects for manufactures exports to revive in the near term and become a major source of export earnings over the longer term are not good. The near-term recovery is being delayed by vascillating economic policies, the lack of private-sector confidence, and persistent financial difficulties. A substantial increase in investment expenditures is probably required before manufactures exports will register a significant gain. However, official statistics indicate that gross external investment in Chile has been only half the level of that in other Latin American countries. Because of the low level of investor confidence caused by the high level of foreign 25X1 25X1

debt and the growing political opposition to President Pinochet, we do not believe that Chile's investment position will be significantly altered in the future. As a consequence, copper and related metals will continue to comprise the bulk of Chile's total export earnings, and it will not become an important second-tier LDC exporter of manufactured products.

Peru. Peru's manufactures exports have advanced at a rapid pace since 1975. Foreign sales climbed at an average annual rate of about 70 percent, from $38 million in 1975 to $553 million in 1980. As a consequence, the share of manufactures in total exports has risen to nearly 17 percent, compared with only 3 percent in 1975. The most active product line, textiles, accounts for 28 percent of manufactures exports. The dynamic growth of manufactures exports has been fueled by the traditional textile exports as well as the nontraditional exports of clothing, cement, jewelry, iron and steel, ships, and plastic products.

According to official Peruvian statistics, exports of manufactured products sharply declined in 1981 and again in 1983. These slumps are attributed to several developments: the decline in global demand; the real appreciation of the exchange rate; a gradually mounting external debt; selective nontariff restrictions in importing countries; and reduced access to the Certex program, which subsidizes nontraditional exports by means of tax rebates.

The decline in Peru's manufactures exports as well as overall economic performance has brought into focus the need for greater economic efficiency and increased reliance on labor-intensive methods of production. According to State Department reporting, Peruvian authorities, with the assistance of World Bank economists, have been engaged in a full review of the existing laws affecting industry. Although incomplete, this review has identified several factors that currently impede production. These include laws guaranteeing the stability of employment and the participation of labor in profits and management, arrangements for wage indexation, and extensive state participation in commercial activities. When completed, this review will culminate in a program of corrective actions that may be supported by a World Bank structural adjustment loan.

In our judgment, these actions will not be sufficient to launch Peru to the status of a NIC. Lima's efforts to expand manufactures exports will be hindered by several factors. In particular:

- Reduced access to world financial markets will have a negative impact on the level of domestic investment. 25X1
- Worldwide overcapacity and heightened protectionist tendencies abroad will restrain the demand for many of Peru's promoted manufactures exports.
- Labor conflicts, which have steadily increased over the past several years, will have a detrimental impact on the level of production. 25X1

Uruguay. Uruguay's strong manufactures export performance stems from a decision taken in 1974 to follow a more outward-looking, market-oriented economic strategy. As a result of this, a flexible exchange rate policy was adopted, most domestic price controls were lifted, and the economic and financial system was liberalized. Between 1975 and 1980, receipts from manufactures exports increased from $114 million to more than $489 million; volume grew at an average annual rate of 22 percent. Uruguay's biggest sellers have been the labor-intensive, consumer-oriented commodities of textiles, clothing, footwear, leather, and luggage; together, these account for more than 60 percent of total manufactures exports. The residual is largely comprised of emerging product lines in chemicals (soaps, fertilizer, and dyes), electrical components (batteries and cables), and transport equipment (trucks and components). 25X1 25X1

Since the middle of 1981, the growth of Uruguay's manufactures exports has decelerated. According to diplomatic reporting, this slowdown is attributed to the real appreciation of the peso exchange rate, the reduction in regional demand for Uruguay's products resulting from Argentina's and Brazil's efforts to adjust their economies (Argentina and Brazil account for over 25 percent of Uruguay's total exports), and the decline in industrial country demand.[14] To redress

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this situation, the government introduced a number of corrective measures that reaffirm its intentions to adhere to the tenets of outward-looking, market-oriented growth policies. The most important of these measures was the abandonment of a preannounced exchange rate schedule in favor of a freely floating rate. Montevideo also stepped up its program to phase out trade and exchange rate restrictions.

We believe that there will be a resurgence in the growth of Uruguay's manufactures exports. Not only is the government pursuing trade policies that enhance the competitiveness of its exported products, but the country has an abundance of skilled workers and a relatively developed industrial base. However, the pace of the recovery will depend in large measure on such factors as domestic political stability, the strength of the OECD economic recovery, and the financial health of neighboring countries. The growing possibility of major confrontations between political parties and the military, accompanied by labor unrest, could arrest the confidence necessary for even a mild economic upswing. Because of the small industrial base and the limited composition of its manufactures exports, we do not believe that Uruguay will become a NIC in the near or medium term.

Near East

Cyprus. The Greek-Cypriot-controlled Republic of Cyprus represents a classic example of export-led industrial growth. By focusing investment in labor-intensive, quick-yielding, export-oriented light industries under Emergency Action Plans for 1975-76 and 1977-78, Cyprus's manufactures exports grew from $57.0 million in 1975 to $280.7 million in 1981. This growth has been led by clothing, which replaced potatoes as the most important export, and footwear. Jointly, their share of total exports increased from 15 percent in 1975 to 27 percent in 1981.

The Fourth Emergency Action Plan (1982-86) continues to pursue an export-oriented development strategy, with manufactures playing a leading role. According to World Bank reports, a main objective of the plan is to reverse the declining trend in manufacturing investment, which occurred during the Emergency Action Plan for 1979-81. Because the government expects the supply of unskilled labor to grow slowly, it wants to promote more capital-intensive industries that are based on higher technology and modern organization and management. By following this strategy, the government intends to capitalize on Cyprus's favorable location and climate and on the availability of skilled labor, dynamic entrepreneurs, and good communication facilities. 25X1 25X1

In the near term, we expect Cyprus to continue to encourage its traditional exports of clothing, footwear, cement, and cigarettes. Whether Cyprus will attain NIC status depends on how successful it is in resolving several bottlenecks. These include low labor productivity, market constraints in Arab countries, and an underdeveloped higher technology industrial base. Because it is a small exporter with markets concentrated in Arab countries, we doubt that Cyprus will pose a serious competitive challenge to industrial countries. 25X1

Jordan. Rapid expansion and diversification of industrial production and a growing regional demand for Jordanian products have enabled Jordan to sustain a very strong export performance in manufactures. 25X1 Starting from a low level, manufactures exports recorded a threefold increase in value between 1975 and 1980, to reach $202 million. These exports represent a wide range of products, with particularly rapid growth in wood products, transport equipment, and nonmetallic mineral products. Chemicals (mainly detergents and soap) account for the largest share of manufactures exports (19 percent), followed by wood products and cigarettes. 25X1

The basic objective of the Five-Year Plan for 1981-85 is to further diversify manufacturing in favor of the commodity-producing sectors and, in particular, export industries. The plan is drawn around an ambitious investment program that calls for roughly $10 billion in investment outlays over the course of five years, more than three times the amount under the 1976-80 plan. Half of the projected investment expenditures will be used to expand the productive sectors. Of this, 45 percent will go to mining and 25X1

manufacturing. The latter is to be concentrated in the phosphate fertilizer, potash, cement, and glass industries, of which several projects are currently under construction. In addition to the existing measures used to promote exports from these industries, the plan provides for a duty drawback system and a special export risk insurance fund.

In view of the expected completion of the large export-oriented industrial projects, we believe the medium-term prospects for Jordan to increase its manufactures exports are promising. This optimistic outlook is shared by the World Bank. It projects that Jordan could exceed the plan's growth targets if the government maintains a healthy investment climate and reforms the existing system of industrial protection. Because of the regional orientation of Jordan's manufactures exports, however, the growth in these exports will depend critically on the political and economic stability of neighboring countries.

Jordan's longer term industrial outlook is less encouraging. In particular:

- Uncertainty about political stability in the region will be a significant impediment to high levels of foreign investment.

- The investment program of the present five-year plan emphasizes large-scale mineral industries. Because Jordan's natural resource base is small, we doubt that these industries will be able to carry the momentum of industrial growth established during this plan.

- The debt to be contracted during the current plan period, even if well within the debt servicing capacity of Jordan, will most likely impose a serious financial constraint for the next Development Plan period. By necessity, the next plan would have to be less ambitious than the current one, leading toward lower overall economic growth.

- Jordan's export markets are predominately in neighboring Arab countries. Excessive reliance on these few markets could very likely become an important constraint to maintaining a high export performance in the future, particularly since their economies are not growing as rapidly as in the past.

- The flow of financial resources from external sources is expected to decline as a result of lower Baghdad Summit payments, reduced worker remittances, and diminished aid flows.

In our judgment, these factors will slow the pace of Jordan's industrial development and prevent it from becoming a future NIC.

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Appendix B

Statistical Annex

Table B-1
Developing Countries With Manufactures Exports Exceeding $200 Million in 1980

Rank	Country	Value (*million US $*)	Real Average Annual Growth Rate (*percent*)		Rank	Country	Value (*million US $*)	Real Average Annual Growth Rate (*percent*)	
			1976-80	1971-80				1976-80	1971-80
1	Taiwan	17,990	16.5	18.1	19	Peru	553	55.4	31.5
2	Hong Kong	17,951	15.3	10.2	20	Bangladesh	502	12.3	2.9
3	South Korea	15,659	19.1	23.6	21	Indonesia	501	31.1	30.6
4	Singapore	9,048	20.7	21.8	22	Lebanon	490	−0.6	3.5
5	Brazil	7,492	16.7	21.6	23	Uruguay	489	22.0	11.5
6	India	5,690	13.0	6.4	24	Saudi Arabia	456	13.5	47.6
7	Nigeria	2,600	145.2	60.0	25	Guatemala	359	8.1	4.3
8	Malaysia	2,427	18.3	22.3	26	Egypt	335	−17.7	−6.1
9	Kuwait	2,131	13.0	23.1	27	Venezuela	321	12.6	9.5
10	Argentina	1,856	10.0	9.9	28	Cyprus	310	28.1	36.1
11	Mexico	1,735	3.2	4.2	29	Costa Rica	292	9.4	8.7
12	Thailand	1,627	25.8	30.6	30	El Salvador	255	3.0	2.9
13	Pakistan	1,277	7.2	0.2	31	Sri Lanka	241	50.2	32.8
14	Philippines	1,221	24.4	18.1	32	Ivory Coast	216	0.2	10.2
15	Tunisia	798	24.3	22.7	33	Kenya	211	17.1	8.4
16	Colombia	778	0.6	16.6	34	Trinidad and Tobago	204	3.1	1.2
17	Chile	690	21.6	16.6					
18	Morocco	565	13.5	15.2	35	Jordan	202	21.8	20.4

Source: Derived from table B-2.

Table B-2
Second-Tier LDCs: Structure of Manufactures Exports, 1970, 1975, and 1980 [a]

Percent (except where noted)

	Total Manufactured Products (*million US $*) (5 to 8 less 68) [b]	Chemicals (5)	Basic Manufactures		Machinery and Transport Equipment (7)	Miscellaneous Manufactures	
			Total (6 less 68)	Of Which: Textiles (65)		Total (8)	Of Which: Clothing (84)
Argentina [c]							
1970	246	22.4	35.3	1.9	27.0	15.3	6.4
1975	722	16.3	19.5	0.3	55.3	8.9	2.2
1980	1,856	21.3	35.9	1.9	28.3	14.6	7.6
Chile							
1970	51	31.6	48.2	NEGL	20.2	NEGL	NEGL
1975	165	48.0	44.8	NEGL	7.2	NEGL	NEGL
1980	690	61.8	27.0	NEGL	9.0	2.2	NEGL
Cyprus							
1970	5	3.9	35.3	7.8	2.0	58.8	23.5
1975	57	2.1	45.1	1.2	21.8	31.1	16.5
1980	310	5.3	26.9	2.7	12.5	55.3	31.2
India [c]							
1970	1,051	4.5	76.1	43.8	10.0	9.4	3.5
1975	1,961	5.9	61.3	30.6	16.4	16.4	9.9
1980 [d]	5,690	5.2	62.5	24.0	11.8	20.5	13.1
Indonesia							
1970	12	44.3	23.8	14.8	29.5	2.5	NEGL
1975	85	28.5	9.5	2.5	37.6	24.5	2.8
1980	501	16.7	37.5	10.3	21.8	24.0	19.7
Jordan							
1970	11	7.1	20.4	4.4	65.5	7.1	1.8
1975	48	12.9	30.6	6.7	44.5	12.1	4.6
1980	202	19.4	34.9	6.0	26.1	19.6	4.9
Malaysia							
1970	111	10.8	51.5	5.6	24.9	12.9	4.8
1975	664	5.0	25.9	5.1	36.0	33.2	6.4
1980	2,427	3.3	21.4	6.6	61.2	14.1	6.2
Pakistan [c]							
1970	425	1.3	84.4	75.4	7.1	7.2	1.2
1975	571	2.1	79.3	66.2	2.6	16.0	5.4
1980	1,277	1.6	78.5	68.6	4.8	15.1	8.1
Peru							
1970	14	22.2	69.6	NEGL	8.1	NEGL	NEGL
1975	38	16.3	26.7	12.0	44.3	12.8	NEGL
1980	553	15.3	45.4	28.0	10.6	28.8	7.7
Philippines							
1970	79	6.8	81.0	6.8	1.0	11.2	0.5
1975	261	8.5	46.2	8.6	4.6	40.6	12.7
1980	1,221	7.3	32.0	6.1	10.5	50.2	22.8

Table B-2 (continued)
Second-Tier LDCs: Structure of Manufactures Exports, 1970, 1975, and 1980 [a]

Percent (except where noted)

	Total Manufactured Products (*million US $*) (5 to 8 less 68) [b]	Chemicals (5)	Basic Manufactures		Machinery and Transport Equipment (7)	Miscellaneous Manufactures	
			Total (6 less 68)	Of Which: Textiles (65)		Total (8)	Of Which: Clothing (84)
Sri Lanka							
1970	5	22.9	39.6	NEGL	NEGL	37.5	NEGL
1975	20	52.0	23.0	NEGL	NEGL	24.0	18.5
1980	241	7.6	15.3	2.5	11.1	66.0	63.7
Thailand							
1970	39	6.7	70.2	22.5	11.1	11.9	2.3
1975	332	4.4	59.8	24.4	10.9	24.9	16.1
1980	1,627	3.0	45.8	20.3	23.9	27.3	16.4
Tunisia							
1970	35	50.1	41.3	8.3	2.3	6.3	2.9
1975	168	48.0	17.3	11.5	5.4	29.5	26.8
1980	798	37.1	10.9	6.8	6.6	45.5	42.4
Uruguay							
1970	56	1.8	82.0	79.1	5.2	11.0	5.0
1975	114	4.5	50.2	11.8	7.0	38.5	26.2
1980	489	9.4	40.2	10.8	10.7	39.6	30.1
Second-tier LDC aggregate							
1970	418	15.6	60.2	16.8	14.1	10.1	2.8
1975	1,952	13.3	33.5	8.5	18.7	34.6	10.4
1980	9,051	12.8	34.4	11.9	22.8	30.0	17.3
NIC aggregate							
1970	5,316	6.1	30.0	12.9	18.8	45.1	22.3
1975	19,451	5.2	27.0	12.5	26.0	41.8	22.4
1980	69,876	6.4	26.3	10.3	30.1	37.2	16.3
World aggregate							
1970	189,949	11.6	41.1	6.5	47.3	NA	3.4
1975	500,180	12.2	38.9	5.3	48.9	NA	3.4
1980	1,090,941	13.5	39.6	5.1	46.8	NA	3.7
Industrial-country aggregate							
1970	161,354	12.0	39.2	6.0	48.7	NA	2.5
1975	421,900	12.6	37.0	4.7	50.4	NA	2.2
1980	902,150	14.3	37.3	4.3	48.4	NA	2.3
Developing-country aggregate							
1970	9,489	10.8	74.1	20.2	15.1	NA	14.4
1975	31,612	11.5	66.0	14.7	22.5	NA	17.0
1980	100,266	9.8	63.0	12.4	27.2	NA	14.6

[a] Because of rounding, percentages may not sum to 100.
[b] SITC classifications are given in parentheses.
[c] Not a second-tier LDC.
[d] Product shares are for 1979.

Source: UN *Yearbook of International Trade Statistics;* UN *Monthly Bulletin of Statistics.*

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